

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Cogdill Analyst: Jane Tolman Bill Number: AB 2164

Related Bills: See Prior Analysis Telephone: 845-6111 Amended Date: 04-08-2002

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Rural Medical Care Professionals Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 20, 2002.

X FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 20, 2002 STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would allow a tax credit to physicians and a deduction to medical professionals who work in areas designated by the federal government as being medically underserved.

SUMMARY OF AMENDMENT

For purposes of the credit, the April 8, 2002, amendments:

- Eliminated the term "rural areas" and substituted the term "qualified health professional shortage area," which is an area designated by the federal Department of Health and Human Services,
- Eliminated the term "qualified medical care professional" and instead provided that only physicians would qualify,
- Defined "qualified medical expenses" as the portion of a physician's fee for services provided to a Medi-Cal beneficiary but not reimbursed by Medi-Cal, and
- Changed the credit calculation from 25% of net tax to 25% of qualified medical expenses.

The April 8 amendments also added a deduction to the bill. This deduction would equal 25% of a medical care professional's gross income earned from employment in a qualified health professional shortage area. A taxpayer could claim either the deduction or the credit.

Board Position:

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<u> </u> N	<u> </u> OUA	<u> X </u> PENDING

Legislative Director

Date

Roger Lackey for B.P.

4/19/02

The amendments did not resolve all the concerns identified in the department's analysis of the bill as introduced February 20, 2002. These concerns still apply and are included below for convenience, as well as the new concerns raised by the amendments.

The remainder of the department's analysis of the bill as introduced February 20, 2002, still applies.

POSITION

Pending.

Summary of Suggested Amendments

Department staff is available to assist with amendments to resolve the concerns identified in this analysis.

IMPLEMENTATION CONSIDERATIONS

The department identified the following implementation concerns in its prior analysis of the bill as introduced April 8, 2002. Department staff is available to work with the author's office to resolve these concerns.

The credit is based on the doctor's expenses. It would be more logical if the credit was based on the doctor's fees, which are not reimbursed by Medi-Cal, as the doctor may not have any direct expenses associate with that patient's treatment.

The credit does not specify that the physician be licensed, be working in California, or that the services be performed in California. Also, it is unclear whether the credit would be allowed if Medi-Cal reimburses services provided by practitioners out-of-state to beneficiaries if those services are not available from a practitioner in state. Clarity on those issues would be helpful to prevent disputes between the taxpayers and the department.

[While the credit and deduction appear to be intended to provide alternative tax incentives to the same taxpayer, the wording of each provision is substantively different with respect to the individuals eligible for the incentive. These differences will confuse taxpayers and complicate administration of this bill.]

For purposes of the deduction, the term "qualified medical care professional" is defined using the term "healing arts practitioner." "Healing arts practitioner" is defined very broadly in the Business and Professional Code to include veterinarians, social workers, registered dispensing opticians, hearing aid dispensers, and pharmacists. While the credit is limited to physicians working with Medi-Cal patients, the deduction would be much wider in scope. It would be helpful if the definition for "qualified medical care professional" was narrowed and a definition provided for qualifying expenses for the deduction to ensure that the intent is satisfied.

The deduction would be equal to 25% of the taxpayer's "gross income." The California tax form does not use a gross income figure. It would be helpful if the bill was amended to use either adjusted gross income or taxable income, as these amounts are already established on the department's systems, and provided on the tax forms. Using amounts already captured would make this bill easier for the department to implement and taxpayers to understand.

This deduction would require the addition of a line to Schedule CA, California Adjustments. This may be problematic for the department since there is no additional room on this form.

This credit does not contain a sunset date. Sunset dates generally are provided to allow periodic review by the Legislature.

This bill does not limit the number of years for the carryover period for the credit. The department would be required to retain the carryover on the tax forms indefinitely because an unlimited credit carryover period is allowed. Recent credits have been enacted with a carryover period limitation since experience shows credits typically are exhausted within eight years of being earned

ECONOMIC IMPACT

Revenue Estimate

Due to data limitations, revenue losses reflect general orders of magnitude. The total impact of this bill is on the order of \$40 million annually.

- I. It is estimated that a credit equal to 25% of a physician's fees not reimbursed by Medi-Cal would result in losses on the order of \$10 million per year (1,100 physicians x \$10,000 average tax liability) beginning in 2002-03.
- II. It is estimated that a 25% deduction available to healing arts practitioners employed in a Health Professional Shortage Areas (HPSA) would result in revenue losses on the order of \$30 million per year (45,500 practitioners x \$50,000 x 25% x 5% average tax rate) beginning in 2002-03.

It should be noted that since the bill does not indicate that a physician must be physically present in an HPSA, only providing services in an HPSA, the ability to provide real-time consultations through telemedicine could increase revenue losses significantly over time.

Revenue losses that will result from this bill depend on several factors such as:

- the number of physicians and other qualified medical care professionals that provide or would start to provide medical services in qualified Health Professional Shortage Areas,
- the dollar amount of services not reimbursed by Medi-Cal for beneficiaries receiving services in these areas,
- the taxable income reported by these medical professionals in any given year, as well as,
- the utilization of the credit or deduction for each taxable year.

Revenue Discussion

Credit to Physicians

The original bill applied only to rural areas of California. This bill as amended now covers qualified HPSAs, as designated by the United States Department of Health and Human Services. This bill now includes inner city and rural communities that have an inadequate supply of primary care physicians, dentists and mental health professionals. The primary criterion used for the designation of a primary care physician HPSA is if the area has a population to full-time-equivalent primary care physician ratio of at least 3,500 to 1. The dental and mental health professional HPSAs have separate criteria.

A 1999 report from the California Policy Research Center indicates that there are at least 4 million Californians living in federally designated HPSAs that have fewer than one primary care physician for every 3,500 persons. If it is assumed there is exactly a 3,500 to 1 ratio, there are approximately 1,100 physicians practicing in these areas. For purposes of this analysis, it is assumed that virtually all of these physicians provide services to Medi-Cal beneficiaries.

For purposes of this bill, it was assumed that the average income tax liability for physicians who would take the credit would be approximately \$10,000 (average income of \$200,000 x .05 average tax rate). Further, due to the potentially large dollar amount of services not reimbursed by Medi-Cal, it is assumed that physicians would effectively eliminate their tax liability by using this credit resulting in revenue losses on the order of \$10 million per year (1,100 physicians x \$10,000).

Deduction for Medical Care Professionals

A qualified medical care professional is any individual licensed as a healing arts practitioner under Division 2 of the Business and Professions Code (commencing with Section 500). Data from the 2000 Occupational Employment Statistics survey indicates there could be as many as 1,000,000 individuals in California who are healing arts practitioners. Due to the fact that any physician who qualifies for and applies the credit above cannot also qualify for a deduction under this portion of the bill, the number of physicians in California (approximately 90,000) was excluded from the total number of healing arts practitioners for purposes of this estimate.

The following assumptions were applied:

- This bill applies to all healing arts practitioners as defined by the code as well as all services provided in the course of their employment as healing arts practitioners.
- Approximately 5% of all healing arts practitioners in California (excluding physicians) provide services to HPSAs on a full-time equivalent basis. (5% x 910,000 = 45,500)
- The average gross income earned by a healing arts practitioner from employment in a HPSA is \$50,000 and these individuals are all able to utilize their 25% deduction.

The estimated revenue loss, therefore, for a 25% deduction available to healing arts practitioners employed in an HPSA is on the order of \$30 million per year (45,500 practitioners x \$50,000 x 25% x 5% average tax rate)

POLICY CONCERNS

The credit discusses the portion of the patient's fee not reimbursed by Medi-Cal. However, nothing prohibits the physician from being reimbursed by any of the patient's other insurance policies, thus potentially allowing a double benefit.

The deduction allowed by this bill would create differences between federal and California tax law, thereby increasing the complexity of California tax return preparation.

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